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BUDGET 2006

FOCUSING ON PRIORITIES

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CANADA'S NEW GOVERNMENT

TURNING A NEW LEAF

Helping Individuals and Families

May 2, 2006



HELPING INDIVIDUALS AND FAMILIES

Budget 2006 delivers real results for people in a focused and fiscally responsible way. On July 1, 2006:

- The 7-per-cent goods and services tax (GST) will be cut to 6 per cent.
- The lowest personal income tax rate will be reduced to 15.5 per cent from 16 per cent.
- The Universal Child Care Benefit will be launched, providing families \$100 per month for each child under 6 years old.
- A new Canada Employment Credit of \$500, rising to \$1,000 as of January 1, 2007, will be introduced.

Broad-based personal income tax relief, combined with targeted tax cuts, will remove 655,000 low-income Canadians from the tax rolls altogether. Over the next two years, this budget will provide almost \$20 billion in tax relief for individuals—more than the last four budgets combined. As a result, Canadians will have greater opportunity to keep more of their hard-earned tax dollars so they can invest in the things that matter most to them and their families.

This brochure contains basic facts about these and other Budget 2006 measures of particular interest to individuals and families. More details are available on the Department of Finance Canada website at www.fin.gc.ca.



REDUCING THE GST—KEY FACTS FOR CONSUMERS

For consumers, savings from this budget's GST reduction will amount to about \$8.7 billion over two years.

REDUCING THE GST TO 6 PER CENT—EXAMPLES OF SAVINGS

- A family purchasing a new \$200,000 home will save \$1,280 in GST.
- A family buying \$20,000 in new furnishings for that new home will save \$200 in GST.
- A family spending \$30,000 on a car will save \$300 in GST.

GST Transitional Rules

Budget 2006 includes transitional rules for transactions occurring close to or straddling the July 1, 2006, implementation date. For example:

- Where a person receives a good or service in June or earlier for which an invoice is not issued or paid until July 1 or later.
- Where a person pays for something in June or earlier that they do not receive until July 1 or later.

For consumers, these situations raise the question as to whether they pay GST at the 7-per-cent rate or at the new rate of 6 per cent. In general, the existing GST rules that determine when tax is payable will determine if the 6-per-cent rate will apply. Typically, GST is payable when an invoice is issued. Consequently:

- A good or service for which you are invoiced *on or after* July 1, 2006, will generally be taxable at the new 6-per-cent rate, even if you receive the good or service before that date.
- A good or service for which you are invoiced *before* July 1, 2006, will generally be taxable at the 7-per-cent rate, even if the good or service is not delivered until July 1 or later.

Buying a New Home—Transitional Rules

Budget 2006 sets out the rules that will apply to purchases of new homes during the transition to the new 6-per-cent rate. Specifically:

- Where ownership or possession transfer to the buyer *before* July 1, 2006, the 7-per-cent rate would apply.
- Where ownership and possession transfer to the buyer *on or after* July 1, 2006:
 - The 6-per-cent rate would apply if the agreement of purchase and sale is signed after budget day, May 2, 2006.
 - Buyers who signed the purchase agreement on or before May 2, 2006, and whose GST is based on the 7-per-cent rate will be able to claim a transitional adjustment from the Canada Revenue Agency.

As the example below illustrates, the transitional adjustment would be equal to the GST savings due to the reduced rate.

EXAMPLE—GST TRANSITIONAL ADJUSTMENT

Monique and Sanjeev each buy an identical new home in the same subdivision. The price for each home is \$200,000 plus GST. Both buyers are scheduled to take possession of their homes in the fall of 2006.

- Monique signs her agreement of purchase and sale with the builder on May 1, 2006. Sanjeev signs his agreement one week later.
- Sanjeev pays a total of \$207,680 to the builder (i.e. \$200,000 plus \$12,000 in GST minus a rebate of \$4,320, which is 36 per cent of the GST paid).
- Monique pays a total of \$208,960 to the builder (i.e. the price of the home plus \$14,000 in GST minus the GST housing rebate of \$5,040). Subsequently, she claims a transitional benefit of \$1,280.
- As a result, the net amount of GST she pays is \$7,680—the same as the amount paid by Sanjeev.

LOWER PERSONAL INCOME TAXES FOR ALL TAXPAYERS

Budget 2006 proposes to reduce personal income taxes for all taxpayers by permanently reducing the lowest personal income tax rate to 15.5 per cent from 16 per cent as of July 1, 2006. This is the rate that applies on about the first \$36,400 of income. Additional broad-based relief will include the following measures:

- Introducing the new Canada Employment Credit—a tax credit on employment income up to \$500 effective July 1, 2006, to help working Canadians. The credit amount will double to \$1,000 as of January 1, 2007.
- Confirming that the lowest rate will be 15 per cent for the period from January 1, 2005 to June 30, 2006.
- Increasing the basic personal amount—the amount that an individual can earn without paying federal income tax—so that it grows each year and remains above currently legislated levels for 2005, 2006 and 2007.

MORE MONEY IN CANADIANS' POCKETS

Broad-Based Tax Relief for Families by Income Group

| Income group | Average tax savings | |
|------------------------|---------------------|---------|
| | 2006 | 2007 |
| Less than \$15,000 | \$51 | \$96 |
| \$15,000 to \$30,000 | \$199 | \$298 |
| \$30,000 to \$45,000 | \$367 | \$509 |
| \$45,000 to \$60,000 | \$459 | \$643 |
| \$60,000 to \$80,000 | \$562 | \$797 |
| \$80,000 to \$100,000 | \$682 | \$990 |
| \$100,000 to \$150,000 | \$795 | \$1,228 |



UNIVERSAL CHILD CARE PLAN

The new Universal Child Care Plan provides benefits directly to families as well as support for the creation of new child care spaces.

Families

Budget 2006 proposes to introduce the Universal Child Care Benefit as of July 1, 2006. This new benefit will give all families \$100 per month for each child under age 6. This will put \$2.1 billion per year into the hands of parents.

The Universal Child Care Benefit will be taxed in the hands of the spouse with the lower income and will not reduce federal income-tested benefits.

UNIVERSAL CHILD CARE BENEFIT—HOW DO I APPLY?

- Families who receive the Canada Child Tax Benefit (CCTB) will receive the new benefit automatically.
- Families who do not receive the CCTB will be able to apply for the new benefit by submitting a completed CCTB application form to the Canada Revenue Agency.

The Universal Child Care Benefit will provide direct federal support to 1.5 million families and more than 2 million children.

New Child Care Spaces

This budget sets aside \$250 million per year beginning in 2007–08 to support the creation of new, real child care spaces.

CHILDREN'S FITNESS TAX CREDIT

Budget 2006 proposes to introduce, effective January 1, 2007, a tax credit to promote physical fitness among children. For each child under 16, the credit will be provided on up to \$500 in eligible fees for programs of physical activity.

The Government will consult with a small group of experts in health and physical fitness to determine which programs should be eligible for the credit.

HELPING PERSONS WITH DISABILITIES AND PENSIONERS

Persons With Disabilities

Budget 2006 proposes to:

- Increase the maximum annual Child Disability Benefit to \$2,300 from \$2,044, effective July 1, 2006.
- Extend eligibility for the Child Disability Benefit to middle- and higher-income families caring for a disability tax credit-eligible child, including virtually all families that are currently eligible for the CCTB base benefit, effective July 1, 2006.
- Increase the maximum amount of the refundable medical expense supplement (RMES) to \$1,000 from \$767 for the 2006 taxation year.

Over the next two years, Child Disability Benefit enhancements will provide \$80 million in tax relief, and increasing the RMES will provide \$25 million.

EXAMPLES—CHILD DISABILITY BENEFIT

Megan earns \$30,000 and has a child with a disability. Currently, she qualifies for the maximum Child Disability Benefit of \$2,044 per year. As of July 1, 2006, Megan will receive \$2,300 per year as a result of Budget 2006—a \$256 increase.

Fred and Gillian also have a child with a disability. Their income of \$80,000 currently disqualifies them from receiving the Child Disability Benefit. As a result of Budget 2006, they will become eligible for the benefit starting July 1, 2006. Their annual benefit will be \$1,428.

Paul and Louise's income is \$100,000 and, as a result, are also ineligible for the Child Disability Benefit for their child. Like Fred and Gillian, they will become eligible for the benefit. The amount they would receive in this case is \$1,028.

Pensioners

Budget 2006 proposes to double the current \$1,000 maximum amount of eligible pension income that can be claimed under the pension income credit.

This measure is proposed to take effect starting with the 2006 taxation year. It will help nearly 2.7 million taxpayers and remove 85,000 pensioners from the tax rolls. This measure will provide about \$895 million in tax relief to pensioners over the next two years.

HELPING STUDENTS, APPRENTICES AND TRADESPEOPLE

Budget 2006 proposes the following measures:

Students

- A new \$500 tax credit to help about 1.9 million post-secondary students with their textbook costs. For a typical full-time student, the tax credit will represent a yearly benefit of about \$80.
- Making all scholarship, fellowship and bursary income received by post-secondary students exempt from income tax by eliminating the current \$3,000 exemption limit.
- Expanding eligibility for student loans to more students from middle-income families.

Apprentices

- A new tax credit of up to \$2,000 per year for employers who hire and train apprentices to help them cope with the difficulties they face in finding skilled tradespeople. In addition, apprentices themselves will be eligible for \$1,000 grants as of January 1, 2007, under a new Apprenticeship Incentive Program.

Tradespeople

- A new tools tax deduction of up to \$500 for tradespeople for the cost of tools in excess of \$1,000 that they must acquire as a condition of their employment. Moreover, the \$200 limit on the cost of tools eligible for the 100-per-cent capital cost allowance will be increased to \$500.

HELPING PUBLIC TRANSIT USERS

Budget 2006 proposes a new tax credit for people who regularly use public transit. This credit will be available to anyone who purchases monthly transit passes or passes for a longer duration.

This incentive to use public transit will help ease traffic congestion and improve the environment. It will provide regular transit users with about \$370 million in tax relief over the next two years.

HELPING NEWCOMERS TO CANADA

Budget 2006 delivers on the Government's commitment to reduce by half the \$975 Right of Permanent Residence Fee. Effective immediately, this fee is reduced to \$490.

This budget also increases immigration settlement funding by \$307 million and takes steps towards the establishment of a Canadian agency for assessment and recognition of foreign credentials.

How Can I Get More Information on Budget 2006?

Information is available on the Internet at www.fin.gc.ca or by phoning:

1 800 O-Canada (1 800 622-6232)
1 800 926-9105 (TTY for the speech and hearing impaired/deaf)

You can also obtain copies of this brochure and other budget documents from the:

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